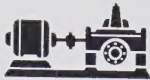


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ANNUAL REPORT 1960

MONTREAL LOCOMOTIVE WORKS, LIMITED

BOARD OF DIRECTORS

PERRY T. EGBERT, *Chairman*
WILLIAM F. LEWIS, *President*
JOHN E. L. DUQUET, Q.C.
PERCY M. FOX
WILSON D. LEGGETT, JR.
WILLIAM G. MILLER

WILLIAM S. MORRIS
J. GEOFFREY NOTMAN
HERMAN PRESS
JULES R. TIMMINS
COLIN W. WEBSTER
ROBERT W. WHITE

OFFICERS

PERRY T. EGBERT, *Chairman of the Board*
WILLIAM F. LEWIS, *President*
WILLIAM S. MORRIS, *Vice-President*
HENRY VALLE, *Vice-President, Marketing*
HERMAN PRESS, *Treasurer*
HENRY M. BOURCIER, *Secretary*
JOHN J. NORRIS, *Comptroller*

Transfer Agents:

ROYAL TRUST COMPANY
MONTREAL, TORONTO, WINNIPEG, VANCOUVER
BANK OF MONTREAL TRUST COMPANY
64 WALL STREET, NEW YORK

Registrars:

MONTREAL TRUST COMPANY
MONTREAL, TORONTO, WINNIPEG, VANCOUVER
BANK OF MONTREAL TRUST COMPANY
64 WALL STREET, NEW YORK

1960 ANNUAL REPORT OF THE DIRECTORS



MONTREAL LOCOMOTIVE WORKS, LIMITED
MONTREAL, QUEBEC

FINANCIAL FACTS IN BRIEF

	1960	1959
Income (before taxes)	\$1,306,000	\$3,083,000
Income from sale of fixed assets	470,000	112,000
Income taxes	542,000	1,493,000
Net income (after taxes)	1,234,000	1,702,000
Earnings per share	1.76	2.43
Dividends on common stock	700,000	945,000
Dividends per share of common stock	1.00	1.35
Earned surplus	10,274,000	9,740,000
Payrolls and various social security plans	3,326,000	4,643,000
Average number of employees	545	871
Additions to property, plant and equipment	429,000	247,000
Depreciation	342,000	331,000
Net working capital	10,010,000	9,757,000
Number of shareholders	5,288	5,288

ANNUAL REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

In 1960 net income amounted to \$1,234,000, equal to \$1.76 per common share as compared with \$1,702,000 or \$2.43 per share in 1959.

During 1960 your Company experienced a decline in output. While production was maintained at a satisfactory level during the first half of the year, a decrease occurred during the second half as economic conditions in Canada discouraged expenditures for capital goods.

Shipments from the Company's transportation division were reduced when the number of locomotives already purchased by the major Canadian railways became sufficient to handle the declining volume of carloadings.

Canada's petroleum refining and petrochemical industries continued in minor degree to expand during 1960. MLW obtained additional orders for heat transfer equipment for the natural gas industry which, together with the delivery of large feedwater heaters for the steam-powered electric-generating industry, enabled your Company to realize an increase in shipments of thermal products, but at lower prices as a result of severe competition.

Shipments of industrial products, including steel mill equipment, weldments, steel pipe and other miscellaneous items were below our expectations for 1960. Again this was caused by reduced demand and keen competition for the available business. Activity in the new pump line, following the signing of an agreement with Goulds Pumps, Incorporated, on October 5, 1960, was largely limited to organization, ordering of necessary equipment and training of new personnel. While sales of pumps were not large in this short period, the volume of inquiries received was most encouraging.

Service operations were also lower in 1960 mainly as a result of a decline in orders for diesel locomotive replacement parts as the Canadian railways introduced stringent measures of economy. In this field, the rebuilding of locomotive components and diesel engines tended towards an increase as compared with 1959. Your Company also made a good volume of deliveries of reclaimed crankshafts from new chrome plating, regrinding and balancing facilities.

FINANCIAL REVIEW

The net income for the year includes a capital profit of \$470,000 realized on the sale of fixed assets consisting of land and buildings which did not form part of the Company's principal plant and were not deemed to be necessary for future purposes.

Regular quarterly dividends of 25c per share were declared and the total of \$1.00 per share for the year compares with \$1.35 for last year.

The Company's net working capital position remains strong at \$10,010,000 as compared with \$9,757,000 a year ago.

Additions to plant and equipment were higher at \$429,000 as compared with the \$247,000 in 1959.

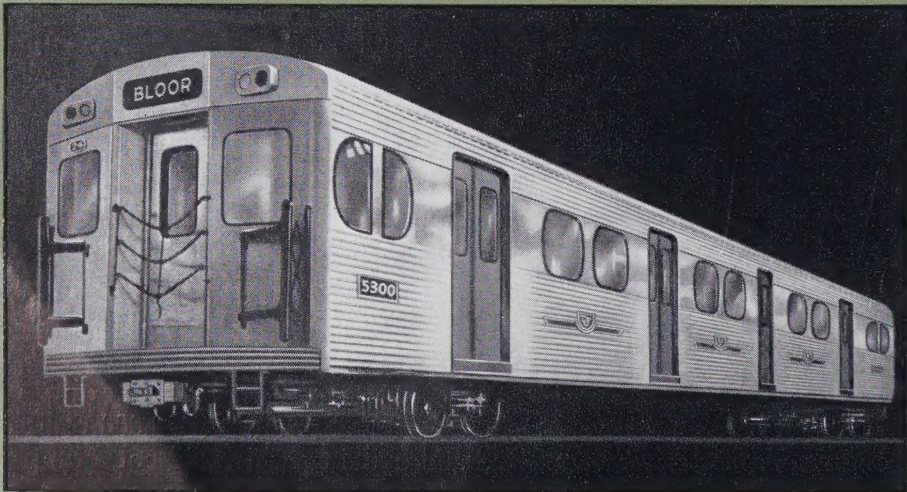
The charge to income for depreciation, which was \$331,000 in 1959, was increased to \$342,000 for 1960.

OUTLOOK

Unfilled orders at the year end amounted to \$5,200,000 compared with \$14,000,000 at the end of 1959.

The entry of your Company into the manufacture of rapid transit cars for municipalities is expected to offset to some extent the reduction in the demand for diesel locomotives from the high levels of recent years when the Canadian railways were converting from steam to diesel power. The first order is for 36 cars for the Toronto Transit Commission which your Company was successful in obtaining in competition with other firms in Canada, England, the United States, Japan and European countries. While the manufacture of these cars will commence in 1961, the full benefit from this order will not be realized until 1962 when the majority of the cars will be delivered.

The new export finance arrangements provided by the Canadian Government, in conjunction with the Canadian banks, may assist your Company in quoting locomotives to foreign countries where term financing is required, provided that the terms and cost of the arrangements are found to be competitive with those



MLW was recently awarded a contract to build 36 subway cars for the Toronto Transit Commission. The cars will include 90 per cent Canadian materials and labor. The order represents an important step in MLW's diversification program.

available to builders in other countries. Every possible use of these credit arrangements will be made by the Company in its efforts to obtain business in the export field.

The new facilities for the reclamation of crankshafts, installed during 1960 to expand the Company's diesel locomotive service operations, will make a further contribution to volume when in full operation. Increased requirements for replacement parts are anticipated, as existing locomotives advance in age, and should help to maintain the volume of service operations at least at the levels obtained in 1960. In addition, installations of machinery and equipment to be used in the manufacture of parts for diesel engines and for replacement purposes were commenced towards the end of 1960 and will continue into 1961. This will enable your Company to manufacture components formerly furnished by other suppliers.

Orders on hand for heat transfer equipment and feedwater heaters, together with forecasts of new business from the petroleum refining, petrochemical, natural gas and steam-powered electric-generating industries, are expected to keep the volume of thermal products at the same level or slightly better than 1960.

Active participation in research and development in the field of nuclear power constitutes a new and important phase of the business of the thermal products division. New facilities created for this purpose together with others already available have enabled MLW to become a supplier of equipment for nuclear power projects. Orders have already been received for products required for the Candu power plant.

Forecast shipments of steel mill equipment, diesel engine weldments, welded



Built for Quebec Cartier Mining Company, this 1800 hp road switcher draws trainloads of iron ore concentrate down the 193-mile railway built north of Port Cartier on the lower St. Lawrence

steel pipe, pumps and the growing volume of miscellaneous equipment for various industries are contingent upon the growth in the Canadian economy. While your Company is not too optimistic about current market conditions, particularly for the first half of 1961, it is hopeful that shipment of industrial products will show some improvement over 1960.

Your Company is vigorously continuing an active investigation of new product lines, including those developed by Alco Products, Incorporated, in the United States and which, by agreement, are available to MLW.

CHANGES IN DIRECTORS AND OFFICERS

Effective April 22, 1960, Mr. William F. Lewis was elected President of the Company, replacing Mr. William G. Miller who has returned to Alco Products, Incorporated, to take up other duties. Mr. Miller will continue as a Director of the Company. On this same date, Mr. Henry Valle, formerly Manager of Marketing, was appointed Vice-President of Marketing. After forty-three years of service in various capacities with MLW and Alco Products, Incorporated, Mr. Daniel W. Cameron, who has been Vice-President of Manufacturing since August 1, 1957, retired effective December 31, 1960.

EMPLOYEE RELATIONS

During the year the Company introduced a formal pension plan for its hourly-rated employees to replace an informal plan which had theretofore been in effect and which carried no provision for funding. In this connection the Company paid an amount of \$565,000 to the Trustee under the Plan, representing 50% of the past service cost which, along with the remainder of this cost, will be charged to operations over a period of years.

CONCLUSION

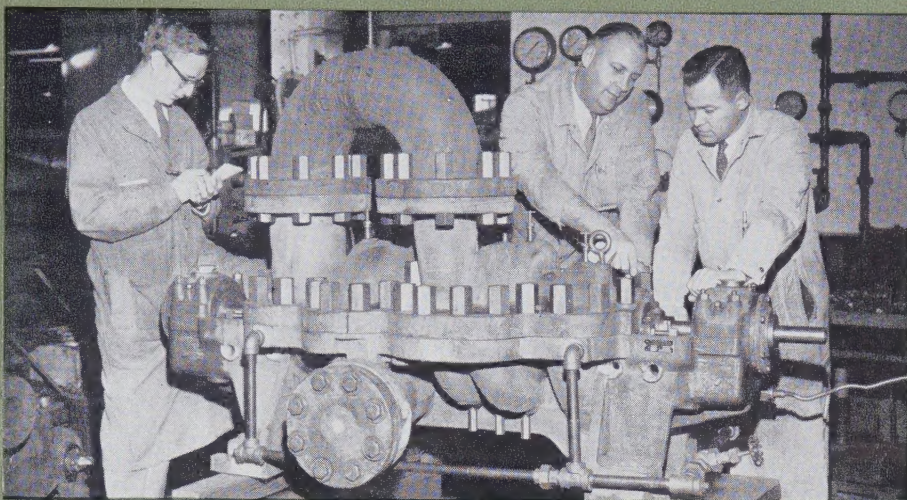
The Company's Balance Sheet as at December 31, 1960, and related statements of Profit and Loss and Earned Surplus for the year, together with the Auditors' Report to shareholders, appear on the following pages. Comparative figures for the previous year are also included.

The Board of Directors gratefully acknowledges the valuable services rendered by its officers and employees and records its appreciation of the continued confidence and support of the shareholders and customers of the Company.

Respectfully submitted on behalf of the Board.

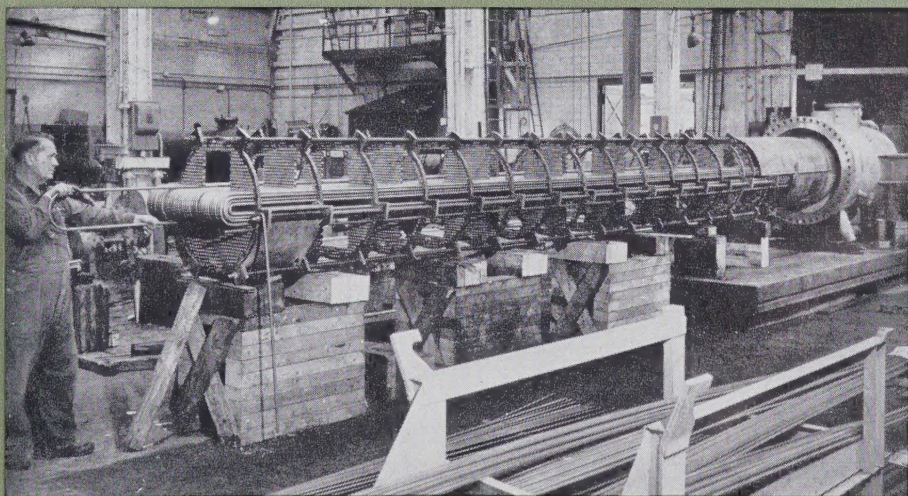
PERRY T. EGBERT,
Chairman of the Board
WILLIAM F. LEWIS,
President

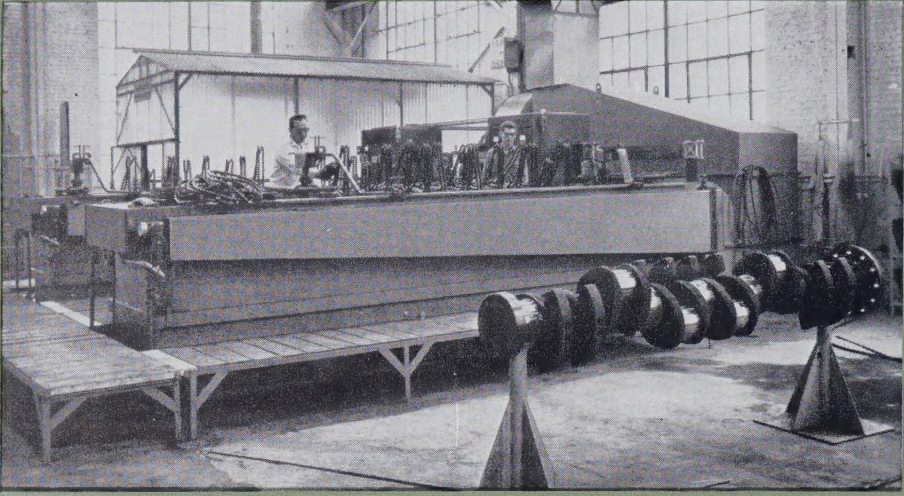
March 8, 1961
Montreal, Canada



The entire line of Goulds centrifugal pumps is now available in Canada through MLW as a result of an agreement concluded with Goulds Pumps Inc. of Seneca Falls, N.Y. Here MLW sales engineers in training at the Goulds plant examine a large model multi-stage centrifugal pump.

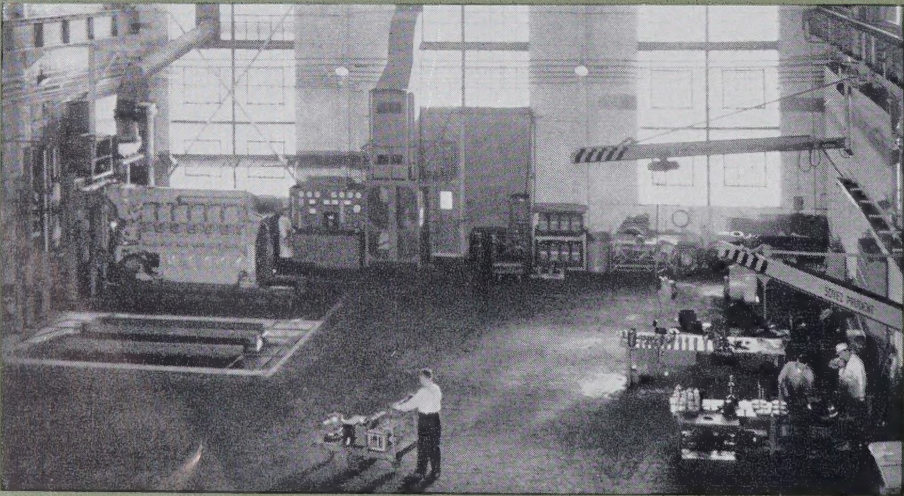
This feedwater heater was one of several built by the thermal products division for the Lakeview generating station of the Ontario Hydro Electric Commission. Similar units are on order for Atomic Energy of Canada Limited.





Canada's first complete facilities for reclaiming crankshafts were put into operation in 1960 by MLW. Representing a major expansion program, they include equipment for grinding, shot-peening, chrome plating, and balancing large shafts of the size used in diesel engines and big compressors.

Here a diesel engine undergoes a complete rebuilding process on a special test bed in MLW's new factory rebuild quarters. Amount of space devoted to factory rebuild facilities has been more than doubled to handle the increase in diesel engine servicing business.



MONTREAL LOCOMOTIVE WORKS, LIMITED

STATEMENT OF PROFIT AND LOSS

For the Years Ended December 31, 1960 and 1959

	<u>1960</u>	<u>1959</u>
Income from operations.....	\$ 986,075	\$2,888,648
Income from investments.....	319,950	193,769
	<u>\$1,306,025</u>	<u>\$3,082,417</u>
Income from sale of fixed assets.....	469,951	112,152
Provision for income taxes.....	542,000	1,493,000
Net Income for the year.....	<u><u>\$1,233,976</u></u>	<u><u>\$1,701,569</u></u>

Note: Included in the charges against income from operations are:

Depreciation.....	\$ 341,872	\$ 330,737
Remuneration of executive officers.....	134,600	125,584
Directors' fees.....	13,800	15,850
Legal fees and expenses.....	17,085	46,500

STATEMENT OF EARNED SURPLUS

For the Years Ended December 31, 1960 and 1959

	<u>1960</u>	<u>1959</u>
Earned surplus at January 1.....	\$ 9,739,883	\$ 8,983,314
<i>Add:</i>		
Net income for the year	1,233,976	1,701,569
	<u>\$10,973,859</u>	<u>\$10,684,883</u>
<i>Deduct:</i>		
Dividends on common stock (\$1.00 per share 1960; \$1.35 per share 1959).....	700,000	945,000
Earned Surplus at December 31.....	<u><u>\$10,273,859</u></u>	<u><u>\$ 9,739,883</u></u>

MONTREAL LOCOMOTIVE
BALANCE SHEET AS AT DECEMBER 31

ASSETS

	December 31 1960	December 31 1959
CURRENT ASSETS:		
Cash.....	\$ 1,005,745	\$ 2,239,287
Government of Canada Bonds and term deposits..... (market value, 1960—\$6,094,500; 1959—\$6,572,300)	6,091,770	6,522,650
Accounts and notes receivable, less allowance for doubtful accounts (NOTE 1).....	1,585,010	2,735,475
Inventories, at lower of cost or market, less reserve.....	3,355,725	4,586,684
Total Current Assets.....	<u>\$12,038,250</u>	<u>\$16,084,096</u>
INVESTMENT IN SUBSIDIARY COMPANY, at cost.....	\$ 5,000	\$ 5,000
FIXED ASSETS, on basis of cost:		
Land.....	\$ 32,999	
Buildings, machinery and equipment.....	9,155,954	9,188,953
Less: Accumulated depreciation.....	6,153,658	8,895,988
	<u>\$ 3,035,295</u>	<u>\$ 3,044,646</u>
PREPAID EXPENSES AND DEFERRED CHARGES (NOTE 2).....	687,957	150,964
	<u>\$15,766,502</u>	<u>\$19,284,706</u>

Notes: (1) Accounts and notes receivable at December 31, 1960 include \$695,215 not maturing within one year. Accounts payable at December 31, 1960 include \$225,574 not payable within one year.

(2) During 1960 the Company contributed \$565,000 to a trust fund representing 50% of the past service cost under the hourly-rated employees' pension plan which became effective June 1, 1960. Of this amount \$543,000 is included in "Prepaid Expenses and Deferred Charges." The Company intends to charge the past service pension cost to operations over a period of not more than 30 years. The plan is subject to the Company's right to modify, suspend or discontinue the pension plan or to reduce its contribution at any time.

E WORKS, LIMITED

MBER 31, 1960 AND 1959

LIABILITIES AND SHAREHOLDERS' OWNERSHIP

	December 31 1960	December 31 1959
CURRENT LIABILITIES:		
Dividends payable.....	\$ 175,000	\$ 420,000
Accounts payable (NOTE 1).....	830,317	3,814,253
Accrued payroll and other expenses.....	759,997	1,122,749
Advances received on contracts.....	46,005	6,093
Provision for income taxes.....	216,924	964,428
Total Current Liabilities.....	<u>\$ 2,028,243</u>	<u>\$ 6,327,523</u>
DEFERRED TAXES ON INCOME (NOTE 3).....	\$ 464,400	\$ 217,300
SHAREHOLDERS' OWNERSHIP:		
Common stock, without nominal or par value		
700,000 shares authorized and issued.....	3,000,000	3,000,000
Earned surplus.....	10,273,859	9,739,883
	<u>\$13,273,859</u>	<u>\$12,739,883</u>
	<u>\$15,766,502</u>	<u>\$19,284,706</u>

(3) On filing income tax returns for 1959 and prior years, the Company claimed for Federal tax purposes an amount greater than the depreciation charged to operations, and in addition the Company intends to claim for 1960 the total amount of the payment made with respect to the past service pension costs referred to in Note (2). This results in a provision for income tax in excess of the taxes otherwise payable and these excess provisions included in "Deferred Taxes on Income" are applicable to those future periods in which the amounts claimed for depreciation and past service costs may be less than the amounts charged to operations.

(4) Contingent liabilities at December 31, 1960 were as follows:—

(a) Notes sold with recourse amount to \$286,874.

(b) No provision has been made for a claim against the Company in the amount of approximately \$140,000 which the Company considers to be wholly unfounded and is contesting.

Signed on behalf of the Board:

PERRY T. EGBERT, *Director*

WILLIAM F. LEWIS, *Director*

AUDITORS' REPORT

DELOITTE, PLENDER, HASKINS & SELLS

CHARTERED ACCOUNTANTS

MONTREAL TORONTO
WINNIPEG REGINA
 PRINCE GEORGE

HAMILTON WINDSOR
CALGARY EDMONTON
VANCOUVER

215 ST. JAMES STREET WEST
MONTREAL 1, CANADA

To the Shareholders of

MONTREAL LOCOMOTIVE WORKS, LIMITED

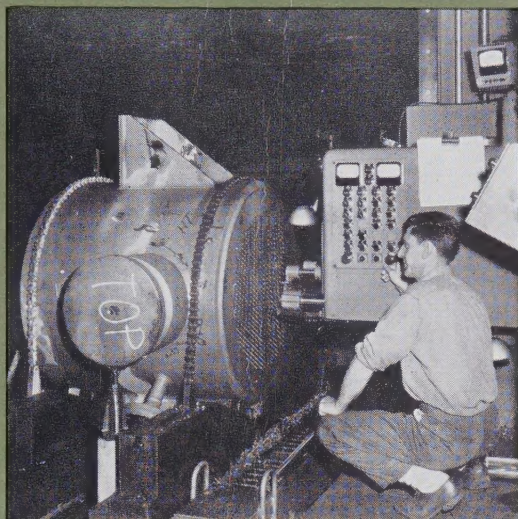
We have examined the balance sheet of Montreal Locomotive Works, Limited as at December 31, 1960 and the statements of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In accordance with the provisions of Section 118 of the Canadian Companies Act, we report that the wholly-owned subsidiary company has not commenced operations and had neither profits nor losses to December 31, 1960.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and statements of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1960 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

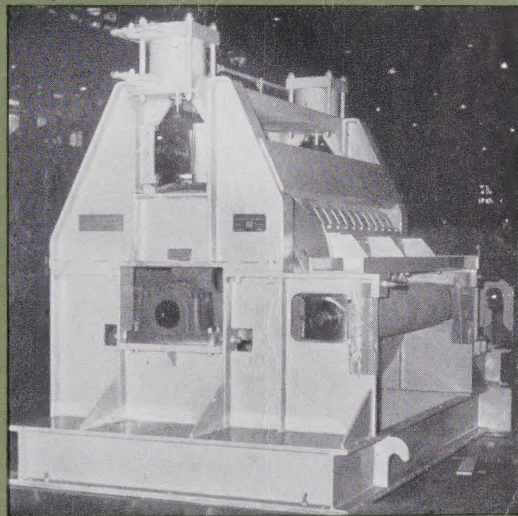
Deloitte, Plender, Haskins & Sells
Chartered Accountants

January 25, 1961



New production facilities added during 1960 included this automatic tape-controlled deep hole target drill, the only one of its kind in Canada.

This bridge roll unit is part of a continuous galvanizing line built by MLW for Dominion Foundries and Steel Limited.





MLW SERVES THESE MARKETS

Transportation, petroleum refining, steel, pulp and paper, chemical processing, power, municipalities, inland waterways, defence, general industrial